

Commodity Spotlight



Abundant World Rice Supplies Pull Down Prices

International rice prices have declined sharply this year in the face of large supplies in nearly all exporting countries and weaker global demand. Prices dropped as major exporting countries produced record or near-record crops and as production rebounded in major importing countries in Southeast Asia and Latin America—two regions severely impacted by the 1997/98 El Niño. Weak Asian currencies, Brazil's 1999 currency devaluation, and historically low prices for other grains have also tilted trading prices downward.

After spiking to a record 27.3 million metric tons (milled basis) in 1998, world rice trade is projected to fall 11 percent this year and to contract nearly 5 percent in 2000. While global rice trade in 2000 would be more than 4 million tons below the 1998 record, it would still be well above pre-1998 levels.

Because the international rice market is "thin"—i.e., only a small share of production is traded annually—small changes in trade can cause large price fluctuations. Only about 6 percent of global rice production is traded annually, well below the traded share of soybeans (25 percent), wheat (20 percent), and coarse grains (around 12 percent). Segmentation of rice

trade by type and quality magnifies this "thinness."

For the U.S. rice sector, international market events have a strong impact, as exports comprise more than 40 percent of U.S. production. The U.S. is typically the third- or fourth-largest exporter of rice—behind Thailand and Vietnam—accounting for 12-13 percent of global trade.

International Rice Prices Drop Sharply

When Thailand, the world's largest exporter, devalued its currency in the summer of 1997, international rice prices—quoted in U.S. dollars—dropped sharply. The economic crisis rapidly spread across much of Asia, pushing prices lower. By that fall, other Asian exporters lowered prices to remain competitive, and U.S. prices fell slightly. International prices dropped steadily until the end of 1997, when Indonesia and the Philippines began importing massive amounts of rice, supporting international prices through the summer of 1998.

In January, 1999, with massive El Niño-driven sales to Indonesia and the Philippines over, international prices for milled rice—measured by Thai 100-percent

grade B—had dropped from \$330 per ton last fall to about \$300. By late August, weaker world trade had pushed prices down further to less than \$250. A month later, prices had dropped to \$218 per ton on expectations of bumper harvests in Asia, a near-halt to purchases by Indonesia—the world's largest importer—and a weaker Thai baht. In early September, Indonesia announced a new policy temporarily limiting private imports to higher quality rices, effectively halting new private purchases.

Prices rose slightly in October and early November—to \$229 per ton—as the baht strengthened, but global supply and demand fundamentals remain bearish. Prices are still the lowest since summer 1994. With global ending stocks projected at nearly 60 million tons—the largest on record—there is little expectation of price strength for the remainder of 1999/2000.

Top-quality U.S. southern long grain milled rice is currently quoted at about \$300 per ton, down from \$386 in January and the lowest since spring 1995. Several large food aid purchases late in the 1998/99 marketing year have slowed the fall in U.S. prices in the face of weaker world trade and falling international prices. U.S. rice typically sells at a small premium to Thai rice. While the difference between Thai and U.S. rice prices—about \$70 per ton—has contracted since the spring and summer, it is still large enough to make U.S. rice uncompetitive in price-sensitive high-quality markets such as South Africa and the Middle East.

Asian, Latin American Imports Drop As Production Rebounds...

Indonesia, Bangladesh, the Philippines, and Brazil—the four largest rice importing countries—are responsible for the bulk of the 3-million-ton drop in projected global rice imports in 1999. In 2000, their imports—except for Brazil's—are projected to drop further. These four countries had imported record amounts of rice in 1998, almost exclusively indica, which has borne the brunt of this year's weaker trade. El Niño's impact on 1997/98 crops drove record-high imports in Indonesia, the Philippines, and Brazil, while severe flooding in summer 1998 spurred record imports in Bangladesh.

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In 1998/99, production in both Southeast Asia and Latin America rebounded more strongly than expected from El Niño. The large crop expansion in Southeast Asia was due primarily to higher yields, while in Latin America, higher domestic prices encouraged greater plantings, and extremely favorable weather promoted substantial yield recoveries.

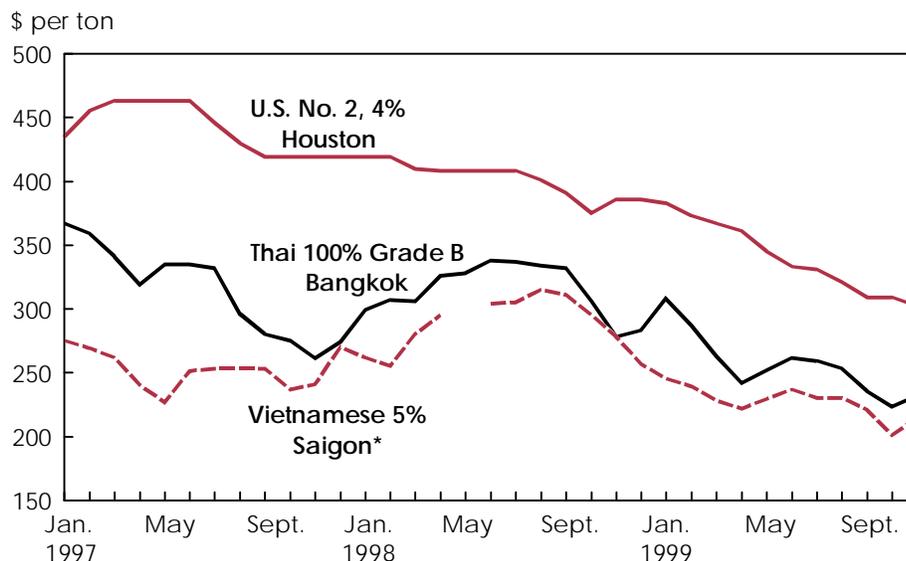
Indonesia's 1998/99 rice crop (harvested in 1999), rose more than 3 percent, pulling projected imports down 2.2 million tons from 1998's 6.1 million—the largest amount of rice ever imported in a year by a single country. In the Philippines, production rose nearly 3 percent, pulling 1999 imports down 45 percent to 1.2 million tons. In South Asia, Bangladesh's 1998/99 crop—up 1 percent from a year earlier—was record high, resulting in a 700,000-ton drop in imports to 1.8 million. Record imports in 1998 had resulted in larger carryover stocks, a major factor in the 1999 drop in imports.

For 1999/2000, record or near-record crops are projected for these three countries. As a result, Indonesia's imports are projected to drop 23 percent to 3 million tons, the Philippines' to fall 25 percent to 900,000 tons, and Bangladesh's to drop 800,000 tons to 1 million tons.

Overall, Asian rice imports are projected to drop 26 percent in calendar 1999 to 9.8 million tons, declining 18 percent in 2000 to 8.1 million tons. South and Southeast Asia account for nearly all of the decline. Partially offsetting the big drop in South and Southeast Asia are larger purchases by Japan and South Korea, which are required to increase imports annually as part of their WTO commitments. Both countries import mostly japonica rice.

In Latin America (including Mexico), total rice production in 1998/99 rebounded 26 percent to a record 14.8 million tons. Brazil surpasses all other non-Asian nations in rice production, consumption, and imports. Brazil's 1999 crop (harvested in March and April) jumped 34 percent, making it the country's largest in over a decade and leading Brazil to cut 1999 imports by 42 percent to a projected 850,000 tons. Larger crops are also responsible for lower imports by Colombia, Ecuador, and Peru.

International Rice Prices Are Lower Than a Year Ago



Monthly prices based on weekly quoted prices for long grain milled rice, f.o.b. at respective ports. * In early April through May 1998, the government of Vietnam halted new export sales.

Economic Research Service, USDA

For 1999/2000, production in Latin America is projected to drop 7 percent as yields return to more normal levels and lower prices induce a drop in area planted. The smaller crop explains a projected 9-percent increase in Latin American imports to 3 million tons in 2000, the second-highest on record. Brazil's imports, rising 250,000 tons to

1.1 million tons, account for the bulk of the projected increase. Mexico and Cuba are also projected to import more rice.

...While Export Supplies Are Abundant Worldwide

Coinciding with this year's substantial reduction in global import demand are

Window on the Past

Excerpts from USDA publications

Probing Potential Trade Markets

Our heavy foreign trade within late years has attracted much attention at home and abroad. Numerous inquiries have been received regarding the commercial opportunities offered by the former Spanish possessions. No authority has been given to this Department to get exact information regarding trade facilities in Puerto Rico, Cuba, and Philippine Islands. The Section of Foreign Markets, has, however, collated and published everything available regarding the trade of those islands.

Frequent inquiry comes regarding trade in China and Russia, which seem to offer great commercial possibilities in the immediate future. There is a dearth of reliable information regarding both these countries.

Yearbook of Agriculture, 1899

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Rice Marketing Years Vary by Country

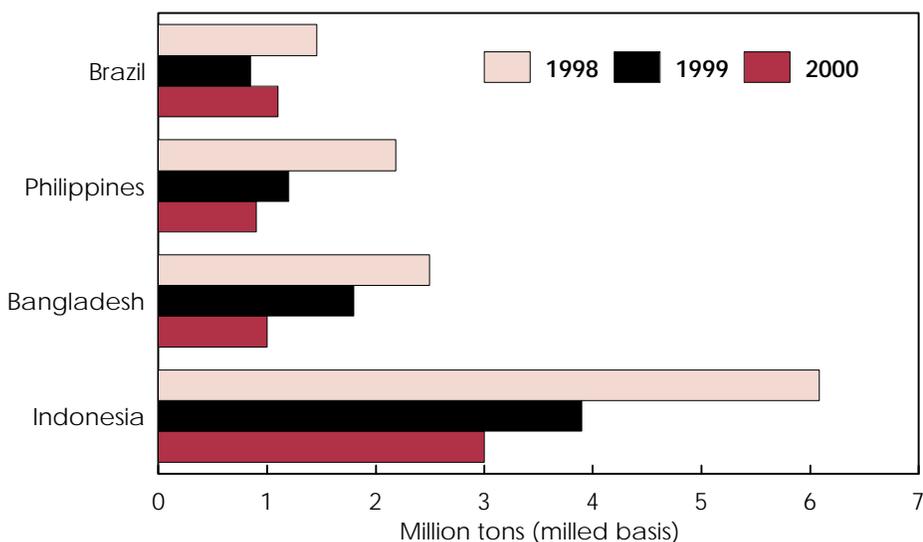
Cropping patterns vary by country and are largely determined by climatic conditions. Areas in or near the tropics are often able to grow two or three rice crops in a 12-month period.

To report and forecast production of rice worldwide, USDA's Foreign Agricultural Service designates 12-month marketing years for individual countries based on when the bulk of the annual harvest impacts U.S. exports. Supply and use is then aggregated across countries, with the international marketing year spanning up to 18 months—the time between the first month and the last month of the various individual marketing years.

For a single country, harvest in marketing-year 1998/99 may occur in calendar-year 1998, 1999, or in parts of both years. For example, China harvested three rice crops—early, intermediate, and late—in calendar-year 1998, which is the 1998/99 marketing year for China. The U.S. 1998/99 marketing year began in August 1998, just prior to the bulk of the harvest.

With marketing years varying by country, world rice trade is typically reported and analyzed on a calendar-year basis.

Rice Imports by Four Largest Importers to Remain Below 1998 Records



1999 and 2000 projected.

Economic Research Service, USDA

abundant supplies of rice worldwide. A situation of record or near-record crops in nearly all exporting countries virtually guarantees adequate supplies for the level of global imports expected, as well as adequate buffer stocks in the event of unexpected production shortfalls in some areas.

Asia—with five of the top six exporting countries—typically accounts for more than 70 percent of global rice exports and supplies nearly all the continent's indica

rice imports. All five produced abundant rice crops in 1998/99. India, Vietnam, and Pakistan harvested record or near-record crops. Though the rice crop in Thailand—the world's largest exporter of rice—declined slightly, it was just 3 percent below the previous year's record high. Despite severe flooding in 1998, China's 1998/99 crop (harvested in 1998), was still its second highest to date. For 1999/2000, record or near-record crops are projected again for all five countries.

The result will be more-than-adequate export supplies.

Asia's total 1999 rice exports are projected to drop 13 percent from 1998's record 21 million tons, with India and China accounting for most of the reduction. India, having exported a record 4.5 million tons in 1998, is projected to sell only 2.75 million this year, due mostly to a large drop in Bangladesh's imports, not to lack of supplies. China's 1999 exports are projected to drop 1.2 million tons from last year's abnormally high level to a more typical 2.5 million tons. Thailand is projected to export 6.1 million tons in 1999, down 7 percent from 1998's record but still among the largest on record. Vietnam's exports are projected to rise 11 percent to a record 4.2 million tons, a result of a bumper crop and aggressive sales outside Southeast Asia. Pakistan is projected to export a record 2 million tons in 1999, up 11 percent from 1998.

For 2000, Asia's rice exports are projected to drop 7 percent to 16.8 million tons, still the third highest on record; weaker Indian exports account for most of the decrease. India's exports are projected to drop 1.25 million tons to 1.5 million, again a result of weaker imports by Bangladesh.

Exportable supplies held by *non-Asian* major rice exporters are abundant as well. Argentina and Uruguay produced record crops in 1998/99 (harvested in 1999), a result of greater area and record yields. Record plantings and a very high yield drove Australia's 1998/99 crop (harvested in 1999) to a record as well. The 1998/99 U.S. crop (harvested in 1998) was also one of the biggest to date.

In 1999, Argentina's exports are projected at 525,000 tons, down 11 percent from its 1998 record, due solely to weaker Brazilian imports. The U.S. is projected to export 2.75 million tons of rice in 1999, down 13 percent from a year earlier, also due mainly to much lower shipments to Brazil. However, exports are increasing for some countries. Uruguay is projected to export a record 725,000 tons in 1999 and Australia a record 700,000 tons.

For 1999/2000, area contractions and a return to normal yields underlie projections of lower production in Argentina

An International Rice Medley

Many types of rice are traded globally. *Indica* rice accounts for more than 75 percent of total trade. Indica is grown in tropical or warm climates and cooks fluffy and dry. *Japonica* rice, grown in temperate climates, accounts for 10-12 percent of trade. Japonica cooks moist and clingy. In the U.S., southern long grain is indica rice, California medium grain is

japonica. *Basmati* and *jasmine* are aromatic rices, together accounting for almost 9 percent of trade. Finally, *glutinous rice*, produced primarily in Southeast Asia, accounts for less than 1 percent of trade. When cooked, glutinous rice loses its shape and becomes very sticky.

Leading exporters	Exports			
	Share of world trade	Primary rice type	Quality	Primary destination
	<i>Percent</i>			
Thailand	25	Indica Jasmine	Low-medium-high High	Asia, Africa, Mideast China, U.S.
Vietnam	17	Indica	Low-medium	Asia, Mideast, Africa
India	12-13	Indica Basmati	Low-medium High	Asia, Africa, Mideast EU, Mideast, U.S.
U.S.	12	Indica Japonica	High High	Latin Am., EU, Mideast, Canada Japan, Turkey, Jordan
China	9-10	Japonica Indica	High Low	Japan, S. Korea Asia, Africa
Pakistan	8	Indica Basmati	Low High	Asia, Africa EU, Mideast, U.S.
Uruguay	3	Indica	High-medium	Brazil, other South America
Australia	3	Japonica	High	Japan, Papua New Guinea
Argentina	2	Indica	High-medium	Brazil, other South America
European Union	1-2	Japonica	High	Mediterranean, Russia
Egypt	1	Japonica	High	E. Med., E. Europe, Balkans
Burma	0.5	Indica	Low	Asia

Export market shares based on 1997-99 shipments. Milled basis. Excludes minor shipments by other exporters.

Economic Research Service, USDA

and Uruguay. Despite significantly smaller crops, both countries are projected to export only slightly less rice in 2000. Australia's crop is projected to drop 4 percent, but exports next year are projected to remain at this year's record level. For the U.S., a record crop and lower prices are behind expectations of higher exports in 2000.

Imports Expected Higher for Middle East, Sub-Saharan Africa

In contrast to weaker imports in Asia and Latin America, imports by the Middle East and Sub-Saharan Africa are expected to rise in 1999 and 2000. A severe drought this year in the Middle East is responsible for expanding imports by Iran.

Iran's imports are projected to reach 650,000 tons in 1999—up 150,000 from a year earlier—and to rise to 900,000 tons in 2000. Iran—the world's largest consistent importer of high-quality long grain rice—was a top market for U.S. long grain rice before the 1995 trade embargo. In April 1999, the U.S. lifted the embargo but kept some restrictions on sales, allowing exports on a case-by-case basis with an export license but prohibiting U.S. government assistance of sales through credit guarantees. Iran has not purchased any U.S. rice since lifting of the embargo.

Turkey, whose 1999/2000 crop is forecast down slightly from a year earlier, is projected to import 350,000 tons of rice in

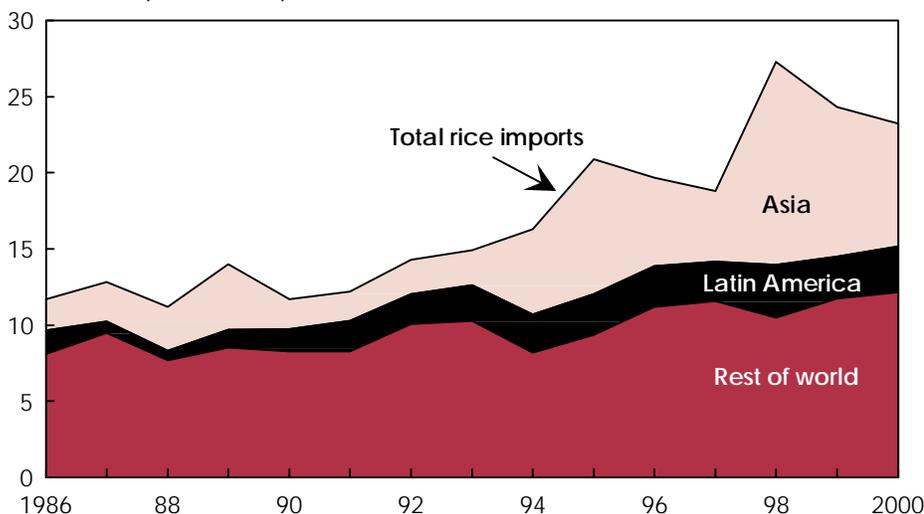
2000, up 40 percent from 1999. Turkey consumes primarily japonica rice, and on average more than half of Turkey's rice consumption is imported. The U.S. is the largest supplier of rice to Turkey; Australia, Egypt, and the European Union are also major suppliers.

West Africa and the Republic of South Africa account for the bulk of Sub-Saharan Africa's rising imports, projected to expand nearly 9 percent in 1999 to a record 4.3 million tons (including food donations), due largely to lower international prices and smaller production. Lower prices not only increase rice demand in commercial markets, they also increase the volume of rice that can be

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Asia Accounts for the Bulk of Reductions in Global Rice Imports Since 1998

Million tons (milled basis)



1999 and 2000 projected.

Economic Research Service, USDA

purchased and shipped as food aid for a given dollar amount of government program funding. In 2000, Sub-Saharan Africa's imports are projected to drop slightly as production posts a 7-percent increase.

Except for shipments to the Republic of South Africa, nearly all U.S. exports to Sub-Saharan Africa are shipped under food aid programs which typically purchase lower quality rices. The Republic of South Africa was once a top market for U.S. rice, but India has captured a growing share of this expanding market in recent years.

Weaker global trade, lower international prices, and near-record U.S. plantings contributed to the sharp drop in U.S. farm prices since spring, especially for long grain rice, the dominant type grown in the

U.S. By late summer, the onset of a record 1999 U.S. rice harvest had weakened prices as well.

Last March, long grain farm prices in the Delta were quoted around \$7.75 per cwt. By September, prices had dropped to about \$5.50 and are currently about the same or slightly lower. For 1999/2000, the U.S. season-average farm price is projected to drop about a third to \$5.50-\$6, with the midpoint the lowest since 1986/87.

In 1997/98 and 1998/99, U.S. farm prices were supported largely by record exports of rough (unmilled) rice, mostly long grain shipments to Latin America (the U.S. is the only major exporter of rough, or unmilled, rice). Strong crop recoveries in Latin America, especially in Brazil, have significantly reduced U.S. exports to the region.

Total U.S. rice exports are projected to drop 2 percent in 1999/2000, with a decrease in rough rice exports offsetting an increase in milled rice exports. Rough rice exports—which have expanded in the 1990's—are projected to drop 38 percent to 0.52 million tons (milled basis). Projections of a 14-percent increase in milled rice exports to 2.16 million tons are based on expected lower prices. More competitive U.S. prices will generate additional demand for U.S. rice in world markets, and the lower prices will increase the quantity of rice shipped as food aid. **AO**

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Upcoming Reports—USDA's Economic Research Service

The following reports will be issued electronically on dates and at times (ET) indicated.

December

- 7 *Food Security Assessment**
- 8 *Tobacco Yearbook**
- 10 *World Agricultural Supply and Demand Estimates (8:30 a.m.)*
- 13 *Cotton and Wool Outlook (4 p.m.)***
*Oil Crops Outlook (4 p.m.)***
*Rice Outlook (4 p.m.)***
- 14 *Feed Outlook (9 a.m.)***
*Wheat Outlook (9 a.m.)***
- 20 *Agricultural Outlook**
U.S. Agricultural Trade Update (3 p.m.)
- 21 *Sugar & Sweeteners**
*Agricultural Income and Finance**
- 28 *Livestock, Dairy, and Poultry (4 p.m.)***

*Release of summary, 3 p.m.

**Available electronically only

The 1999 Rice Situation and Outlook Yearbook...

with special articles on *herbicide-resistant varieties*, and *issues for upcoming WTO negotiations*

Access summary at usda.mannlib.cornell.edu/reports/erssor/field/rcs-bby/

Full report available this month—on the Economic Research Service Website

www.econ.ag.gov